

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2014

Docket No. ACR2014

CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued January 23, 2015)

To clarify the basis of the estimates in its FY 2014 Annual Compliance Report (ACR), filed December 29, 2014, the Postal Service is requested to provide written responses to the following questions and requests. Answers should be provided to individual questions and requests as soon as they are developed, but no later than January 30, 2015.

Standard Mail

1. Please explain why the unit costs for Every Door Direct Mail—Retail (EDDM—R) increased by 11.9 percent from FY 2013 to FY 2014. *Compare* the Commission's analysis of the Postal Service's financial results and 10-K Statement for Fiscal Year 2013¹ with Library Reference USPS-FY14-1.

¹ Financial Analysis, Promoting Financial Transparency, Analysis of United States Postal Service Financial Results and 10-K Statement for Fiscal Year 2013, Revised April 10, 2014, at 53 (FY 2013 Financial Analysis Report).

2. The FY 2014 Cost and Revenue Analysis (CRA) reports a unit cost of 4.4 cents for EDDM—R. Library Reference USPS-FY14-1. By contrast, the CRA reports a unit cost of 6.2 cents for High Density and Saturation Letters. *Id.* Please explain what accounts for the difference in attributable costs between these two products.
3. Please explain why the unit costs for Standard Mail Flats increased by 9.4 percent from FY 2013 to FY 2014. *Compare* the Commission’s FY 2013 Financial Analysis Report on page 53 *with* Library Reference USPS-FY14-1.
4. In its FY 2013 Annual Compliance Report (FY 2013 ACR), the Postal Service stated that “[the Flats Sequencing System (FSS)] has increased the mail processing costs of Flats as the sequencing activity has moved from delivery to mail processing. However, these increased costs are offset by lower delivery costs.” FY 2013 ACR at 23. From FY 2013 to FY 2014, mail processing costs for Standard Mail Flats rose approximately 9 percent. *Compare* Library References USPS-FY14-11 *and* USPS-FY13-11. Over this same period, delivery costs for Standard Mail Flats rose approximately 8 percent from FY 2013 to FY 2014. *Compare* Library References USPS-FY14-19 *and* USPS-FY13-19.
 - a. Please explain why both mail processing and delivery costs for Standard Mail Flats rose from FY 2013 to FY 2014.
 - b. To the extent the rise in mail processing costs was driven by FSS implementation, please explain why these increases were not offset by decreases in delivery costs.

5. This question concerns the Postal Service's Load Leveling Plan. In Docket No. N2014-1, the Postal Service acknowledged that it did not conduct a formal cost savings and network impact analysis.² It also explained that the Load Leveling Plan was established "primarily for the purpose of authorizing operational changes that will alleviate challenges resulting from a collision between current mail entry patterns and services standards that generate a disproportionate Monday delivery workload." *Id.* at 20. In its Advisory Opinion, the Commission recommended that the Postal Service "undertake a cost-benefit analysis at the nationwide level to develop necessary information before proceeding with a nationwide rollout of the Load Leveling Plan."³
- a. Has the Postal Service undertaken the recommended cost-benefit analysis?
 - b. Has the Postal Service quantified the cost savings (or cost increases) associated with the implementation of the Load Leveling Plan?
 - c. If so, please indicate the cost savings or increases associated with the Load Leveling Plan.
 - d. Please indicate the products and shapes with which any cost savings or increases are associated.
 - e. Please identify where the savings or increases associated with Load Leveling are reflected in the FY 2014 ACR cost data.
6. In Docket No. N2012-1, the Postal Service projected an annual cost reduction of \$1.2 billion upon completion of Phase I.⁴ The Postal Service has indicated that

² See Docket No. N2014-1, Reply Brief of the United States Postal Service, February 27, 2014, at 18.

³ Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 32.

⁴ Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 64.

the actual savings were approximately \$0.9 billion per year. See Key Facts on Network Rationalization, available at <http://about.usps.com/news/electronic-press-kits/our-future-network/ofn-usps-key-fact-on-network-rationalization.htm>.

- a. Please explain why the Postal Service did not realize the full level of savings it projected in Docket No. N2012-1.
- b. Please identify the products and shapes in which these savings have been realized and quantify the savings associated with each class and shape.

International Mail

7. The following request concerns the number of pieces for Total Competitive Products reported in the FY 2014 International Cost and Revenue Analysis (ICRA). Refer to USPS-FY14-NP2, Excel files “Reports (Booked).xls” and “Reports.xls,” and the worksheets A Pages (c). In the column headed “Pieces” in Table A-2 of each file, please confirm that the number of pieces for “Total Competitive Products” should exclude special services transactions. If not confirmed, please explain.
8. The following request concerns financial results for Inbound Direct Entry Contracts with Foreign Postal Administrations. Both the booked and imputed versions of the FY 2013 ICRA presented financial results for products under the heading “Inbound Direct Entry Contracts with Foreign Postal Administrations.” Refer to USPS-FY13-NP2, Excel files “Reports (Booked).xls” and “Reports.xls,” and the worksheets A Pages (c), Table A-2, in each file. By contrast, the FY 2014 ICRA does not present financial results for such products. Please discuss the status of contracts, and explain the absence of financial results, for products within Inbound Direct Entry Contracts with Foreign Postal Administrations in the FY 2014 ICRA.

9. The following requests concern product-specific costs reported in the booked version of the FY 2014 ICRA.
 - a. For the Priority Mail International product, FY 2014 product-specific costs decreased nearly 23 percent from FY 2013. Please explain the causes of the decrease.
 - b. For the Outbound International Expedited Services product, FY 2014 product-specific costs decreased nearly 79 percent from FY 2013. Please explain the causes of the decrease.
 - c. For products reported under the heading “Global Reseller Expedited Package Contracts,” FY 2014 product-specific costs increased more than 2,777 percent from FY 2013. Please explain the causes of the increase.
 - d. For products reported under the heading “Global Expedited Package Services (GEPS)—Non-Published Rates,” FY 2014 product-specific costs increased more than 101 percent from FY 2013. Please explain the causes of the increase.
10. The following request concerns the financial results for Inbound Market Dominant Express Service Agreement 1 and the Market Test of Experimental Product—International Merchandise Return Service—Non-Published Rates (IMRS—NPR). Under the heading “Inbound Market Dominant Express Service Agreement 1,” the Postal Service reports financial results for IMRS—NPR (Docket No. MT2013-2). Refer to USPS-FY14-NP2, Excel files “NSA Summary (Booked).xls” and “NSA Summary (Imputed).xls,” and the worksheets Summary, in each file. Please explain why the financial results for IMRS—NPR are reported under Inbound Market Dominant Express Service Agreement 1 and where such results are reported in the booked and imputed versions of the FY 2014 ICRA.
11. This request concerns a difference in the reported financial results for the International Business Reply Service (IBRS) Competitive Contracts 3 product.

For FY 2014, the USPS reports financial results for the IBRS Competitive Contracts 3 product by contract. Refer to USPS-FY14-NP2, Excel files “NSA Summary (Booked).xls” and “NSA Summary (Imputed).xls,” and the worksheets Summary, in each file. The sum of the financial results by contract is greater than the total financial results for IBRS Competitive Contracts reported in both the booked and imputed versions of the FY 2014 ICRA. Please explain and reconcile the IBRS financial results by contract with the IBRS financial results reported in the booked and imputed versions of the FY 2014 ICRA.

12. The Inbound Market Dominant Multi-Service Agreements with Foreign Postal Operators 1 product consists of agreements governing the entry of inbound letterpost. Refer to the agreements that were the subject of Docket Nos. R2013-4 (Royal PostNL (Netherlands)); R2013-3 and R2014-4 (Hongkong Post); and R2012-2 and R2014-2 (Australian Postal Corporation). In the referenced dockets, the Postal Service’s Notice asserts that the negotiated rates in each of the multi-service agreements “result[] in improvement over [the] default rates established under the Universal Postal Union (UPU) Acts for inbound letter-post items.”⁵

The following requests seek information to determine whether the negotiated rates applicable to the volumes entered pursuant to the referenced agreements during FY 2014 improve the cost coverage of the agreements compared to the cost coverage at the UPU terminal dues rates.

- a. For the Royal PostNL (Netherlands) agreement (Docket No. R2013-4), please provide an analysis of the FY 2014 volumes, negotiated rates, and applicable UPU default rates, as well as the cost coverage at the negotiated rates and UPU default rates.

⁵ See, e.g., Docket No. R2013-4, Notice of United States Postal Service of Type 2 Rate Adjustment, and Notice of Filing Functionally Equivalent Agreement, November 15, 2012, at 1.

- b. For the Hongkong Post agreements (Docket Nos. R2013-3 and R2014-4), please provide an analysis of the FY 2014 volumes, negotiated rates, and applicable UPU default rates, as well as the cost coverage at the negotiated rates and UPU default rates for these agreements.
 - c. Also, please provide an analysis of the contract year volumes, negotiated rates, and applicable UPU default rates, as well as the cost coverage at the negotiated rates and UPU default rates for the Docket No. R2013-3 agreement.
 - d. For the Australian Postal Corporation agreements (Docket Nos. R2012-2 and R2014-2), please provide an analysis of the FY 2014 volumes, negotiated rates, and applicable UPU default rates by rate cell, as well as the cost coverage at the negotiated rates and UPU default rates for these agreements.
 - e. Also, please provide an analysis of the contract year volumes, negotiated rates, and applicable UPU default rates, as well as the cost coverage at the negotiated rates and UPU default rates for the Docket No. R2012-2 agreement.
13. This request concerns a difference in the reported financial results for the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 (Competitive Multi-Service Agreements) product. For FY 2014, the Postal Service reports financial results for the Competitive Multi-Service Agreements product by agreement. Refer to USPS-FY14-NP2, Excel files “NSA Summary (Booked).xls” and “NSA Summary (Imputed).xls,” and the worksheets Summary, in each file. The sum of the financial results by agreement is less than the total financial results for the Competitive Multi-Service Agreements product reported in both the booked and imputed versions of the FY 2014 ICRA. Please explain and reconcile the Competitive Multi-Service Agreements financial results by

agreement with the Competitive Multi-Service Agreements product financial results reported in the booked and imputed versions of the FY 2014 ICRA.

14. The following requests concern the financial results for three agreements within the Inbound Competitive Multi-Service Agreements with Foreign Postal Operators 1 product. The three agreements are Royal PostNL (Netherlands) in Docket No. CP2013-24 and the Hongkong Post agreements that were the subject of Docket Nos. CP2013-22 and CP2014-21. Under both the booked and imputed versions of the FY 2014 ICRA, costs exceeded revenues for each of these agreements. Refer to USPS-FY14-NP2, the Excel files “NSA Summary (Booked).xls” and “NSA Summary (Imputed).xls”, worksheet tabs Summary.
 - a. For the Royal PostNL (Netherlands) agreement (Docket No. CP2013-24), please explain why costs exceeded revenue during FY 2014.
 - b. For the Hongkong Post agreements (Docket Nos. CP2013-22 and CP2014-21), please explain why costs exceeded revenue during FY 2014.
 - c. Please provide an analysis of the contract period volumes, negotiated rates, and costs for the Docket No. CP2013-22 agreement, as amended. If costs exceeded revenue during the contract period, please explain.

By the Acting Chairman.

Robert G. Taub